

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountant, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Montgomery County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY FISCAL COURT

June 30, 2005

Morgan-Franklin, LLC has completed the audit of the Montgomery County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Montgomery County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$6,861,964 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,324,628 in its governmental activities as of June 30, 2005, with total net assets of \$6,779,856. In its business-type activities, total net cash and cash equivalents, which was all unrestricted, was \$82,108. The fiscal court had total debt principal as of June 30, 2005 of \$1,082,967 with \$77,137 due within the next year.

Deposits:

The fiscal court deposits were not adequately insured and collateralized by bank securities or bonds.

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Morgan-Franklin, LLC

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the Montgomery County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Montgomery County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montgomery County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2005 on our consideration of Montgomery County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed
October 5, 2005

MONTGOMERY COUNTY OFFICIALS**For The Year Ended June 30, 2005****Fiscal Court Members:**

Banford D. Wilson	County Judge/Executive
Lloyd G. Cassidy	Commissioner
S. Norman Lansdale	Commissioner
Frank M. Sponcil	Commissioner

Other Elected Officials:

Paul D. Cowden	County Attorney
Everett D. Myers	Jailer
Judy L. Witt	County Clerk
Connie Curtis	Circuit Court Clerk
Fred D. Shortridge	Sheriff
Linda Cockwell	Property Valuation Administrator
Wallace Johnson	Coroner

Appointed Personnel:

Forrest Brown	County Treasurer
Barbara Reynolds	Occupational Tax Collector
Casey Jones	Finance Officer

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Management's Discussion and Analysis

June 30, 2005

Management's Discussion and Analysis**June 30, 2005**

The financial management of Montgomery County, Kentucky offers readers of Montgomery County's financial statements this narrative overview and analysis of the financial activities of Montgomery County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- At the close of the current fiscal year, Montgomery County governmental funds reported combined ending fund balances of \$2,228,299. Of this amount \$2,086,378 is available for spending at the government's discretion (unreserved fund balance).
- Montgomery County's total indebtedness at the close of fiscal year June 30, 2005 was \$1,082,967 of which \$1,005,830 is long-term debt (due after one year) and \$77,137 is short-term debt (to be paid within one year). Debt was reduced by \$239,751 during fiscal year 2005. This decrease represents \$183,809 regular payments on financing obligations and revenue bonds payable during the year and a \$55,942 reduction by refinancing Jail Bond issue.
- At June 30, 2005 the unreserved fund balance for the General Fund was \$1,350,984 which equals approximately 34% of normal annual expenditures for this fund. Also, the unreserved fund balance for the Health/CI Fund was \$269,558 which represents approximately 268% of normal annual expenditures for this fund.
- Montgomery County completed a capital project on the court house annex, the purchase and installation of an HVAC unit, at a cost of \$17,670 and purchased two vehicles, one for the Road Department at a cost of \$20,975 and one for the Animal Shelter for \$18,750 in fiscal year 2005. Montgomery County spent a total \$342,538 to resurface roads during the year. These projects were accomplished with no additional debt.
- Montgomery County received a \$100,000 Economic Development Bond Grant from the state of Kentucky during fiscal year 2005. This money was used to assist with the installation of additional water lines for Nestle Prepared Foods Company.

Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Montgomery County's basic financial statements. Montgomery County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Montgomery County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Montgomery County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator as to the improvement or deterioration of Montgomery County's financial position.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under Montgomery County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction. An exception occurs for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)

Government-wide Financial Statements. (Continued)

Both of the government-wide financial statements distinguish functions of Montgomery County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business activities*). Montgomery County's governmental activities include general government, protection to persons and property, roads, recreation, and social services. The County has only one business type activity – the operation of a jail canteen.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Montgomery County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Montgomery County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)**

Governmental Funds. (Continued)

Montgomery County maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, and Revolving Loan Fund, all of which are considered major funds by the County. The Local Government Economic Assistance Fund, Juvenile Fund, Emergency Fund, Health and Civic Center Fund, and Finneran Fund are considered non-major funds and are represented in a combined form.

Montgomery County adopts an annual appropriated budget for its major funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets and changes in net assets may serve over time as a useful indicator of a government's financial position. Montgomery County's net assets for governmental activities increased from \$6,273,404 to \$6,779,856 during the fiscal year ended June 30, 2005.

At \$4,373,401, the largest portion of Montgomery County's net assets is invested in capital assets, net of related debt. During the year, the County increased this portion of net assets through the purchase of various capital assets. Additional explanation can be found in Notes 3, 5 & 6 to the financial statements

The second largest portion of net assets is unrestricted net assets, at \$2,324,628, which decreased slightly from the previous year. Unrestricted net assets represents funds that can be spent at the County's discretion. The remainder, or restricted net assets of \$81,827, is restricted as to its use by either external restrictions or legislative restrictions.

Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)

Table 1 presents a comparison of net assets as of June 30, 2004 and June 30, 2005.

Table 1
Net Assets Comparison-Governmental Activities

	2004	2005	Variance
Cash and Cash Equivalents	2,144,540	2,228,299	83,759
Other Current Assets	77,734	133,375	55,641
Capital Assets	5,085,853	5,456,368	370,515
Other Noncurrent Assets	<u>170,995</u>	<u>105,310</u>	<u>(65,685)</u>
Total Assets	<u>7,479,122</u>	<u>7,923,352</u>	<u>444,230</u>
Current Liabilities	156,327	137,666	(18,661)
Noncurrent Liabilities	<u>1,049,391</u>	<u>1,005,830</u>	<u>(43,561)</u>
Total Liabilities	<u>1,205,718</u>	<u>1,143,496</u>	<u>(62,222)</u>
Invested in Capital Assets net of related debt	3,880,135	4,373,401	493,266
Restricted Net Assets		81,827	81,827
Unrestricted Net Assets	<u>2,393,269</u>	<u>2,324,628</u>	<u>(68,641)</u>
Total Net Assets	<u><u>6,273,404</u></u>	<u><u>6,779,856</u></u>	<u><u>506,452</u></u>

Changes in net assets. The revenues and expenses information, as shown in Table 2, was derived from the Statement of Activities and reflects how Montgomery County's net assets changed during the fiscal year ended June 30, 2005. The County took steps to decrease expenses across the board in all areas except transportation and protection to persons and property from the previous year in anticipation of receiving less intergovernmental revenues as noted in the \$1,428,079 decrease in operating grants and contributions from the prior year. Even though the County received much less intergovernmental revenue from the previous year, the County experienced an increase of \$506,452 in net assets over the previous year.

**Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)**

**Table 2
Statement of Activities Comparison-Governmental Activities**

Expenses:	2004	2005	Variance
General Government	4,241,849	3,560,582	(681,267)
Protection to Persons and Property	1,562,862	1,646,210	83,348
General Health and Sanitation	301,791	280,169	(21,622)
Social Services	91,503	90,973	(530)
Recreation and Culture	80,313	79,796	(517)
Transportation	7,515	113,768	106,253
Roads	777,533	604,384	(173,149)
Airports	25,000	25,000	-
Interest on Long-Term	62,820	73,448	10,628
Capital Projects	2,763	2,100	(663)
Total Expenses	<u>7,153,949</u>	<u>6,476,430</u>	<u>(677,519)</u>
Revenues:			
Charges for Services	1,262,470	1,304,594	42,124
Operating Grants and Contributions	2,804,662	1,376,583	(1,428,079)
			-
General Revenues	<u>3,753,868</u>	<u>4,301,705</u>	<u>547,837</u>
			-
Change in Net Assets	667,051	506,452	(160,599)
			-
Beginning Net Assets	5,606,353	6,273,404	667,051
Ending Net Assets	<u>6,273,404</u>	<u>6,779,856</u>	<u>506,452</u>

Financial Analysis of the County's Funds.

As noted earlier, Montgomery County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds overview. The focus of Montgomery County governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of Montgomery County's governmental funds was \$2,228,299. Approximately 94% (\$2,086,378) of this amount consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder (\$141,921) is reserved and therefore not available.

**Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds. (Continued)

Montgomery County has four (4) major governmental funds. These are:

- 1.) General Fund;
- 2.) Road Fund;
- 3.) Jail Fund;
- 4.) Revolving Loan Fund.

In addition to the major funds there are five (5) non-major governmental funds:

- 1.) Local Government Economic Assistance Fund (L.G.E.A.);
- 2.) Juvenile Justice Fund;
- 3.) Emergency Food and Shelter Fund;
- 4.) Health and Civic Center Fund;
- 5.) Finneran Fund.

1. The General Fund is the chief operating fund of Montgomery County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$1,350,984, and total fund balance was \$1,362,025. The single largest source of revenue into the General Fund was from Occupational tax revenues, which totaled \$2,066,393 or approximately 45% of the total of General Fund Revenue. The County distributes 50% of the Occupational tax revenues to the City of Mount Sterling. Montgomery County received \$527,904 from Real Property tax revenues. Likewise, 50% of this amount was distributed to the city of Mount Sterling. Montgomery County received a \$100,000 Economic Development Bond Grant in fiscal year 2005. The grant was used to assist the Nestle Prepared Foods Company to install a new gravity line to a waste treatment plant.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund received \$549,979 from the State of Kentucky in revenue during fiscal year 2005. This amount represented approximately 44% of total expenditures for the year. The Road Fund also received \$371,120 from the General Fund during fiscal year 2005.

**Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds. (Continued)

3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance as of June 30, 2005 of \$30,701 of which \$29,441 was reserved. The jail received \$600,451 from the State for operations and for housing various state prisoners during the fiscal year. This represents an increase in the amount of \$72,400 in payments received from the State last year. The jail also received \$417,020 through contracts with other counties to house prisoners during the year, which is a decrease of \$13,896 received in the previous fiscal year. The General Fund contributed \$432,857 to the jail operations.
4. The Revolving Loan Fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. As of June 30, 2005 Montgomery County had two (2) existing loans outstanding. The balance of the principal amount due on the loans at June 30, 2005 was \$178,156. The County also maintained a cash balance in this Fund of \$401,180.
5. The Local Government Economic Assistance (L.G.E.A.) Fund consists of revenue received for two (2) purposes; Coal Impact and Mineral Tax. The total revenue received for the fiscal year ending June 30, 2005 was \$84,032, an increase of \$19,497 or 30% from the previous fiscal year.
6. The Juvenile Justice Fund is used to account for expenditures necessary for transportation and lodging juveniles placed by the court system. Total expenditures were \$39,680 (an increase of \$11,618), with total revenues received from the General Fund.
7. The Emergency Food and Shelter Fund is used to assist needy citizens in paying for rent and utility expenses. Revenue is generated from a Federal Grant and payments are made until the grant funds are expended. Total receipts for fiscal year 2005 into this fund were \$14,341.
8. The Health and Civic Center Fund accounts for the operation of the Civic Center. Revenues are generated primarily from rent for the use of space in the facility. Total revenue for the fiscal year ending June 30, 2005 was \$168,255, an increase of approximately 11.7% from the prior year.

**Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds. (Continued)

9. The Finneran Fund is utilized to help maintain the senior citizens center in Mount Sterling. Revenue is generated entirely from a \$75,000 certificate of deposit.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Montgomery County has only one (1) enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$82,108 as of June 30, 2005 comprised entirely of cash. This fund had net assets of \$51,543 as of June 30, 2004. This represents an increase of \$30,565.

General Fund Budgetary Highlights.

The County's original general budget was amended during the fiscal year increasing the operating budget by \$55,300. Budget amendments were made in several areas due to an increase in borrowed money from the Kentucky Association of Counties Advance Revenue Program (KARP), and State grants.

Actual operating revenues were \$176,092 less than the amount *originally* budgeted by the Montgomery County Fiscal Court. This decrease was primarily due to intergovernmental revenues.

Capital Assets and Debt Administration.

Capital Assets. Montgomery County's investment in capital assets for its government type activities as of June 30, 2005, amounts to \$5,456,368 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during the 2005 fiscal year included resurfacing and repairing County highways, an addition to the Road Department's maintenance building, major upgrades to the courthouse annex's heating and cooling system, and new vehicles for the animal control officer and the road department. Additional information on the County's assets can be found in Note 3 to the financial statements.

Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)

Capital Assets and Debt Administration. (Continued)

Table 3
Montgomery County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities			Ending Balance 6/30/2005
	Beginning Balance FY 2004	Increases	Decreases	
Capital Assets Not Being Depreciated:				
Land and Land Improvements	584,000	\$ -	\$ -	584,000
Total Capital Assets Not Being Depreciated	584,000	\$ -	\$ -	584,000
Capital Assets Being Depreciated:				
Buildings and Improvements	6,072,821	155,485	-	6,228,306
Other Equipment	386,730	15,322	-	402,052
Vehicles and Equipment	971,291	156,725	(84,600)	1,043,416
Infrastructure	561,749	342,538	-	904,287
Total Capital Assets Being Depreciated	7,992,591	670,070	(84,600)	8,578,061
Less Accumulated Depreciation For:				
Buildings	2,423,159	123,491	-	2,546,650
Other Equipment	239,954	37,515	-	277,469
Vehicles and Equipment	805,155	85,778	(68,001)	822,932
Infrastructure	22,470	36,172	-	58,642
Total Accumulated Depreciation	3,490,738	282,956	(68,001)	3,705,693
Total Net Capital Assets Being Depreciated	4,501,853	387,115	(16,599)	4,872,368
Total Governmental Net Capital Assets	<u>5,085,853</u>	<u>387,115</u>	<u>(16,599)</u>	<u>5,456,368</u>

Montgomery County
Management Discussion and Analysis
June 30, 2005
(Continued)

Capital Assets and Debt Administration. (Continued)

Long-Term Debt. At the end of the 2005 fiscal year, Montgomery County had total long-term debt outstanding of \$1,082,967. The amount of debt due within the next year is \$77,137 and \$1,005,830 is due in subsequent years. This debt is for the Montgomery County Regional Jail, Industrial Property land, and leases for Sheriff's Department automobiles. Additional information on the County's long-term debt can be found in Note 5 & 6 to the financial statements.

Requests For Information.

This financial report is designed to provide a general overview of Montgomery County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Montgomery County Treasurer, P.O. Box 690, (44 West Main Street), Mount Sterling, KY 40353.

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MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

MONTGOMERY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,228,299	\$ 82,108	\$ 2,310,407
Notes Receivable	72,846		72,846
Payroll Clearing Account	60,529		60,529
Total Current Assets	2,361,674	82,108	2,443,782
Noncurrent Assets:			
Notes Receivable	105,310		105,310
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	584,000		584,000
Buildings and Improvements	3,681,656		3,681,656
Vehicles and Equipment	220,484		220,484
Other Equipment	124,583		124,583
Infrastructure Assets - Net of Depr.	845,645		845,645
Total Noncurrent Assets	5,561,678	0	5,561,678
Total Assets	7,923,352	82,108	8,005,460
LIABILITIES			
Current Liabilities:			
Payroll Clearing Account	60,529	0	60,529
Revenue Bonds	35,989		35,989
Financing Obligations	41,148		41,148
Total Current Liabilities	137,666	0	137,666
Noncurrent Liabilities:			
Revenue Bonds	446,012		446,012
Financing Obligations	559,818		559,818
Total Noncurrent Liabilities	1,005,830	0	1,005,830
Total Liabilities	1,143,496	0	1,143,496
NET ASSETS			
Invested In Capital Assets, Net of Related Debt	4,373,401	0	4,373,401
Restricted:			
Expendable	6,827		6,827
Nonexpendable	75,000		75,000
Unrestricted	2,324,628	82,108	2,406,736
Total Net Assets	\$ 6,779,856	\$ 82,108	\$ 6,861,964

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues Received		Net (Expenses) Revenues in Net Assets		
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities	Total Business-Type Activities	Totals
Primary Government:						
Governmental Activities:						
General Government	\$ 1,726,103	\$ 270,273	\$ 362,339	\$ (1,093,491)	\$ 0	\$ (1,093,491)
Protection to Persons and Prop.	1,646,210	1,034,321	133,024	(478,865)		(478,865)
General Health and Sanitation	280,169			(280,169)		(280,169)
Social Services	90,973		14,341	(76,632)		(76,632)
Recreation and Culture	79,796			(79,796)		(79,796)
Transportation Facilities and Services	113,768			(113,768)		(113,768)
Roads	604,384		866,879	262,495		262,495
Interest on Long-Term Debt	73,448			(73,448)		(73,448)
Airports	25,000			(25,000)		(25,000)
Capital Projects	2,100			(2,100)		(2,100)
Administration	1,834,479			(1,834,479)		(1,834,479)
Total Governmental Activities	6,476,430	1,304,594	1,376,583	(3,795,253)	0	(3,795,253)
Business-type Activities:						
Jail Canteen	217,752	248,317	0	0	30,565	30,565
Total Business-type Activities	217,752	248,317	0	0	30,565	30,565
Total Primary Government	\$ 6,694,182	\$ 1,552,911	\$ 1,376,583	\$ (3,795,253)	\$ 30,565	\$ (3,764,688)
General Revenues:						
Taxes:						
Property				\$ 638,064	\$ 0	\$ 638,064
Motor Vehicle				136,639		136,639
Franchise				80,068		80,068
Occupational				2,066,393		2,066,393
Telephone/911				1,516		1,516
Solid Waste Disposal				121,331		121,331
Deed Transfer				81,999		81,999
Net Profits				336,139		336,139
Excess Fees				146,174		146,174
Intergovernmental revenue not restricted to specific programs				178		178
Miscellaneous Revenues				545,249		545,249
Interest Earned				92,013		92,013
Gain on debt refinancing				55,942		55,942
Total General Revenues and Special Items				4,301,705	0	4,301,705
Change in Net Assets				506,452	30,565	537,017
Net Assets - Beginning				6,273,404	51,543	6,324,947
Net Assets - Ending				\$ 6,779,856	\$ 82,108	\$ 6,861,964

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

MONTGOMERY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Revolving Loan Fund	Non-Major Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 1,362,025	\$ 23,849	\$ 30,701	\$ 401,181	\$ 410,543	\$ 2,228,299
TOTAL ASSETS	<u>1,362,025</u>	<u>23,849</u>	<u>30,701</u>	<u>401,181</u>	<u>410,543</u>	<u>2,228,299</u>
<u>FUND BALANCES</u>						
Reserved For:						
Encumbrances	11,041	23,849	29,441		2,590	66,921
Permanent Fund - Senior Care					75,000	75,000
Unreserved:						
General Fund	1,350,984					1,350,984
Special Revenue Fund			1,260	401,181	326,126	728,567
Permanent Fund					6,827	6,827
TOTAL FUND BALANCES	<u>\$ 1,362,025</u>	<u>\$ 23,849</u>	<u>\$ 30,701</u>	<u>\$ 401,181</u>	<u>\$ 410,543</u>	<u>\$ 2,228,299</u>

Reconciliation to Statement of Net Assets:

Total Governmental Fund Balances	\$ 2,228,299
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different because:	
Capital Assets Used in Governmental Activities of \$9,162,061, net of accumulated depreciation of \$3,705,693, are not financial resources and, therefore, are not reported in the funds.	5,456,368
Notes Receivable are not reported in the funds.	178,156
Liabilities are not reported in the funds.	
Revenue Bonds	(482,001)
Financing Obligations	(600,966)
Net Assets of Governmental Activities	<u><u>\$ 6,779,856</u></u>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Revolving Loan Fund</u>
<u>REVENUES</u>				
Taxes	\$ 3,462,150	\$ 0	\$ 0	\$ 0
Excess Fees	146,174			
Other Licenses	110,070			
Intergovernmental	547,825	782,847	1,117,855	
Charges for Services			101,714	
Miscellaneous	277,773	1,057	31,040	78,004
Interest	80,580		270	8,216
Total Revenues	<u>4,624,572</u>	<u>783,904</u>	<u>1,250,879</u>	<u>86,220</u>
<u>EXPENDITURES</u>				
General Government	1,806,252	0	0	0
Protection to Persons and Property	270,222		1,266,496	
General Health and Sanitation	180,938			
Social Services	76,632			
Recreation and Culture	79,796			
Transportation Facilities and Services		113,768		
Roads		969,763		
Debt Service:				
Principle	138,642		45,167	
Interest	39,470		33,978	
Capital Projects				
Airports	25,000			
Administration	1,354,277	160,096	282,165	23,200
Total Expenditures	<u>3,971,229</u>	<u>1,243,627</u>	<u>1,627,806</u>	<u>23,200</u>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	<u>653,343</u>	<u>(459,723)</u>	<u>(376,927)</u>	<u>63,020</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Financing Obligation Proceeds	117,000	0	0	0
Transfers From Other Funds	125,000	371,120	432,857	
Transfers To Other Funds	(796,024)	(125,000)	(47,633)	
Total Other Financial Sources (Uses)	<u>(554,024)</u>	<u>246,120</u>	<u>385,224</u>	<u>0</u>
Net Change In Fund Balances	99,319	(213,603)	8,297	63,020
Fund Balances, Beginning	<u>1,262,706</u>	<u>237,452</u>	<u>22,404</u>	<u>338,161</u>
Fund Balances, Ending	<u>\$ 1,362,025</u>	<u>\$ 23,849</u>	<u>\$ 30,701</u>	<u>\$ 401,181</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 0	\$ 3,462,150
	146,174
	110,070
144,107	2,592,634
121,485	223,199
	387,874
2,946	92,012
<u>268,538</u>	<u>6,745,575</u>
0	1,806,252
39,680	1,576,398
85,758	266,696
14,341	90,973
	79,796
	113,768
24,872	994,635
	183,809
	73,448
2,100	2,100
	25,000
14,741	1,834,479
<u>181,492</u>	<u>7,047,354</u>
<u>87,046</u>	<u>(33,241)</u>
0	117,000
39,680	968,657
	(968,657)
<u>39,680</u>	<u>117,000</u>
126,726	83,759
<u>283,817</u>	<u>2,144,540</u>
<u>\$ 410,543</u>	<u>\$ 2,228,299</u>

The accompanying notes are an integral part of the financial statements.

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**MONTGOMERY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

**MONTGOMERY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances-Total Governmental Funds	\$ 83,759
Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital Outlay	670,070
Depreciation Expense	(282,956)
Net gain on disposal of fixed assets	7,856
Notes Receivable Principal Received is recorded in the funds as revenue, however in the government-wide financial statements it results in an increase in cash and decrease in notes receivable which has no effect on net assets.	(70,887)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets.	
Capital Debt Obligations Principal Payments	239,751
Financing Obligation Proceeds	(117,000)
Proceeds from Sheriff for Payoff on Sheriff's Vehicle Lease	(24,141)
Change in Net Assets of Governmental Activities	<u>\$ 506,452</u>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

MONTGOMERY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

		Business-Type Activities - Enterprise Fund
		<hr/>
		Jail Canteen Fund
		<hr/>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$	82,108
Total Assets		<hr/> 82,108 <hr/>
Net Assets		
Unrestricted		82,108
Total Net Assets	\$	<hr/> 82,108 <hr/>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Operating Revenues	
Canteen Receipts	\$ 246,181
Total Operating Revenues	<hr/> 246,181 <hr/>
Operating Expenses	
Cost of Sales	124,796
Educational and Recreational	44,845
Miscellaneous	<hr/> 6,342
Total Operating Expenses	<hr/> 175,983 <hr/>
Operating Income (Loss)	<hr/> 70,198 <hr/>
Non-Operating Revenues/(Expenses)	
Inmate Refunds	(39,786)
Interest Earned	<hr/> 153
Total Non-Operating Expenses	<hr/> (39,633) <hr/>
Change In Net Assets	30,565
Total Net Assets - Beginning	<hr/> 51,543
Total Net Assets - Ending	<hr/> \$ 82,108 <hr/>

The accompanying notes are an integral part of the financial statements.

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MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 246,181
Cost of Sales	(124,796)
Educational and Recreational	(44,845)
Miscellaneous	(6,342)
Net Cash Provided By Operating Activities	<u>70,198</u>
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(39,786)
Net Cash Provided By Noncapital Financing Activities	<u>(39,786)</u>
Cash Flows From Investing Activities	
Interest Earned	153
Net Cash Provided By Investing Activities	<u>153</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,565
Cash and Cash Equivalents - July 1, 2004	<u>51,543</u>
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 82,108</u></u>

The accompanying notes are an integral part of the financial statements.

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**MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

C. Montgomery County Elected Officials Not Part Of Montgomery County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Montgomery County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

See Accompanying Auditors' Report

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Property Tax Calendar

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied October 1, due at discount October 30, due at face value December 30, delinquent January 1 following assessment, and subject to lien and sale April 30 following the delinquency date.

E. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Revolving Loan Fund - This fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. It is considered a Special Revenue Fund.

The government also has the following non-major funds: Local Government Economic Assistance Fund (LGEA), Juvenile Justice Fund, Emergency Food and Shelter Fund, and Health and Civic Center Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Finneran Fund is a non-major fund and is presented as a Permanent Fund. This fund is used to account for trust arrangements in which the reporting government is the beneficiary of the earnings on the principal. The Finneran Fund is presented on the statement of net assets as restricted and designated as expendable or nonexpendable.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). (See Note 2)

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

Capitalization	Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	5,000	10-75
Building Improvements	5,000	10-60
Machinery and Equipment	5,000	3-25
Infrastructure	5,000	10-50
Intangibles	5,000	2-40

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Mount Sterling/Montgomery County Airport and Mount Sterling - Montgomery County 911 Board meet the criteria noted above and are disclosed as an organization jointly governed by the city of Mount Sterling and Montgomery County.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC), as required by KRS 66.480 (1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2005, \$521,232 of the government's bank balance of \$721,232 with Traditional Bank was exposed to custodial credit risk as follows:

- Unsecured and uncollateralized - \$521,232

Note 3. Capital Assets

	Primary Government			
	Governmental Activities			
	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 584,000	\$ 0	\$ 0	\$ 584,000
Total Capital Assets Not Being Depreciated:	584,000			584,000
Capital Assets, Being Depreciated:				
Buildings and Improvements	6,072,821	155,485		6,228,306
Other Equipment	386,730	15,322		402,052
Vehicles and Equipment	971,291	156,725	(84,600)	1,043,416
Infrastructure	561,749	342,538		904,287
Total Capital Assets Being Depreciated	7,992,591	670,070	(84,600)	8,578,061
Less Accumulated Depreciation For:				
Buildings	(2,423,159)	(123,491)		(2,546,650)
Other Equipment	(239,954)	(37,515)		(277,469)
Equipment and Vehicles	(805,155)	(85,778)	68,001	(822,932)
Infrastructure	(22,470)	(36,172)		(58,642)
Total Accumulated Depreciation	(3,490,738)	(282,956)	68,001	(3,705,693)
Total Capital Assets, Being Depreciated, Net	4,501,853	387,114	(16,599)	4,872,368
Governmental Activities Capital Assets, Net	\$ 5,085,853	\$ 387,114	\$ (16,599)	\$ 5,456,368

See Accompanying Auditors' Report

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 96,591
Protection to Persons and Property	69,812
General Health and Sanitation	32,223
Roads, Including Depreciation of General Infrastructure Assets	<u>84,330</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 282,956</u>

4. Notes Receivable

A. The county loaned \$600,000 to Thornberry Enterprises, Inc. on September 22, 1994, for the purpose of constructing a wood products manufacturing facility. Terms of agreement stipulate a ten-year repayment schedule at 3.0 percent interest. Thornberry Enterprises, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2005, the principal balance due was \$134,800.

B. The county loaned \$50,000 to Cabin Hill Properties, LLC, on May 4, 2004. Terms of the agreement stipulate a seven-year repayment schedule at 5.0 percent interest. As of June 30, 2005, the principal balance due was \$43,356.

Note 5. Long-term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rate, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue to be paid in full on October 1, 2014. Revenue bonds outstanding as of June 30, 2005, totaled \$482,001. Debt service requirements due for the remaining years are:

Fiscal Year Ended 30-Jun	Governmental Activities	
	Principal	Interest
2006	\$ 35,989	\$ 29,418
2007	38,270	27,064
2008	40,697	24,561
2009	43,277	21,899
2010	46,021	19,068
2011-2015	<u>277,747</u>	<u>46,184</u>
Totals	<u>\$ 482,001</u>	<u>\$ 168,194</u>

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt

A. Courthouse Annex Renovation

The fiscal court entered into a lease purchase agreement on June 2, 1995, with the Kentucky Association of Counties Leasing Trust for renovation of the courthouse annex. The original principal was \$750,000. On May 7, 2001, the lease purchase agreement was restructured. The new lease stipulates a term of four years and an interest rate of 3.5%. The lease was paid in full on January 20, 2005.

B. Industrial Park Expansion

The county entered into a lease purchase agreement on March 25, 2002, with the Kentucky Association of Counties Leasing Trust for the purchase of land for the expansion of the industrial park. The principal amount was \$499,000. Interest payments are due monthly at a variable interest rate between 3.25% and 2.175 % for five years. The principal amount of \$499,000 is due on March 20, 2007. As of June 30, 2005, the principal outstanding was \$499,000. Debt service requirements due for the remaining years are:

Fiscal Year Ended 30-Jun	Governmental Activities	
	Principal	Interest
2006	\$ 0	\$ 10,853
2007	499,000	8,145
Totals	<u>\$ 499,000</u>	<u>\$ 18,998</u>

C. Sheriff's Office Vehicles

1. The county entered into a lease purchase agreement on November 19, 2002, with Farmers Bank and Capital Trust Company for the purchase of three vehicles for the Montgomery County Sheriff's Office. The principal amount was \$64,910 and the lease stipulates a term of 36 months. In December 2004, the Montgomery County Sheriff assumed the lease. As of June 30, 2005 the lease was paid in full.
2. The county entered into a lease purchase agreement on December 21, 2004, with Farmers Bank and Capital Trust Company for the purchase of vehicles for the Montgomery County Sheriff's Office. The principal amount was \$117,000 and the lease stipulates a term of 36 months. As of June 30, 2005, the principal outstanding was \$98,765. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 37,947	\$ 4,319
2007	40,007	2,260
2008	20,811	323
Totals	<u>\$ 98,765</u>	<u>\$ 6,902</u>

See Accompanying Auditors' Report

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

D. Vehicles

The county entered into a lease purchase agreement on November 19, 2002, with Farmers Bank and Trust Company for the purchase of a vehicle. The principal amount was \$21,734 and the lease stipulates a term of 36 months. As of June 30, 2005, the principal outstanding was \$3,201. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$3,201	\$40
Totals	<u>\$3,201</u>	<u>\$40</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds (Note 5)	\$ 575,376	\$ 0	\$ 93,375	\$ 482,001	\$ 35,989
Financing Obligations	<u>630,342</u>	<u>117,000</u>	<u>146,376</u>	<u>600,966</u>	<u>41,148</u>
Governmental Activities					
Long-term Liabilities	<u>\$1,205,718</u>	<u>\$ 117,000</u>	<u>\$ 239,751</u>	<u>\$ 1,082,967</u>	<u>\$ 77,137</u>

Note 7. Short-term Debt

Changes In Short-term Liabilities

In July 2004, Montgomery County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$3,063,300, with the principal being due and paid in January 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$ 9,408.

Note 8. Related Party Transactions

The Montgomery County Treasurer's wife is a Vice President at Mount Sterling Bank. This bank is one of the depository institutions used by the County.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer cost sharing defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Insurance

For the fiscal year ended June 30, 2005, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended 2005

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,610,200	\$ 3,610,200	\$ 3,462,150	\$ (148,050)
Excess Fees	103,562	103,562	146,174	42,612
Licenses and Permits	109,000	109,000	110,070	1,070
Intergovernmental Revenue	823,300	823,300	523,683	(299,617)
Miscellaneous	80,460	80,460	277,773	197,313
Interest	50,000	50,000	80,580	30,580
Total Revenues	<u>4,776,522</u>	<u>4,776,522</u>	<u>4,600,430</u>	<u>(176,092)</u>
EXPENDITURES				
General Government	2,068,145	2,396,420	1,718,518	677,902
Protection to Persons and Property	422,035	468,686	270,222	198,464
General Health and Sanitation	185,245	214,908	180,938	33,970
Social Services	86,000	86,000	76,632	9,368
Recreation and Culture	87,000	87,000	79,796	7,204
Airports	25,000	25,000	25,000	0
Debt Service	3,111,252	3,188,004	3,188,004	0
Administration	2,013,087	1,587,046	1,354,277	232,769
Total Expenditures	<u>7,997,764</u>	<u>8,053,064</u>	<u>6,893,387</u>	<u>1,159,677</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3,221,242)</u>	<u>(3,276,542)</u>	<u>(2,292,957)</u>	<u>983,585</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	3,000,000	3,063,300	3,063,300	0
Transfers From Other Funds			125,000	125,000
Transfers To Other Funds	(1,178,758)	(1,178,758)	(796,024)	382,734
Total Other Financing Sources (Uses)	<u>1,821,242</u>	<u>1,884,542</u>	<u>2,392,276</u>	<u>507,734</u>
Net Changes in Fund Balance	(1,400,000)	(1,392,000)	99,319	1,491,319
Fund Balance - Beginning	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,262,706</u>	<u>(137,294)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 8,000</u>	<u>\$ 1,362,025</u>	<u>\$ 1,354,025</u>

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 765,423	\$ 765,423	\$ 782,847	\$ 17,424
Miscellaneous	2,000	2,000	1,057	(943)
Total Revenues	<u>767,423</u>	<u>767,423</u>	<u>783,904</u>	<u>16,481</u>
EXPENDITURES				
Transportation Facilities And Services	128,000	141,768	113,768	28,000
Roads	1,064,282	1,057,014	969,763	87,251
Administration	172,700	166,200	160,096	6,104
Total Expenditures	<u>1,364,982</u>	<u>1,364,982</u>	<u>1,243,627</u>	<u>121,355</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(597,559)</u>	<u>(597,559)</u>	<u>(459,723)</u>	<u>137,836</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	597,559	597,559	371,120	(226,439)
Transfers To Other Funds			(125,000)	(125,000)
Total Other Financing Sources (Uses)	<u>597,559</u>	<u>597,559</u>	<u>246,120</u>	<u>(351,439)</u>
Net Changes in Fund Balance	0	0	(213,603)	(213,603)
Fund Balance - Beginning			237,452	237,452
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,848</u>	<u>\$ 23,848</u>

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 964,800	\$ 964,800	\$ 1,117,855	\$ 153,055
Charges for Services	110,000	110,000	101,714	(8,286)
Miscellaneous	28,500	28,500	31,040	2,540
Interest	100	100	270	170
Total Revenues	1,103,400	1,103,400	1,250,879	147,479
EXPENDITURES				
Protection to Persons and Property	1,220,914	1,281,394	1,274,372	7,022
Debt Service	73,035	73,035	71,268	1,767
Administration	358,150	297,670	282,166	15,504
Total Expenditures	1,652,099	1,652,099	1,627,806	24,293
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(548,699)	(548,699)	(376,927)	171,772
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	548,699	548,699	432,857	(115,842)
Transfers To Other Funds			(47,633)	(47,633)
Total Other Financing Sources (Uses)	548,699	548,699	385,224	(163,475)
Net Changes in Fund Balance			8,297	8,297
Fund Balance - Beginning			22,404	22,404
Fund Balance - Ending	\$ 0	\$ 0	\$ 30,701	\$ 30,701

MONTGOMERY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous Revenue	\$ 95,215	\$ 95,215	\$ 78,004	\$ (17,211)
Interest	4,650	4,650	8,216	3,566
Total Revenues	<u>99,865</u>	<u>99,865</u>	<u>86,220</u>	<u>(13,645)</u>
EXPENDITURES				
Administration	339,465	339,465	23,200	316,265
Total Expenditures	<u>339,465</u>	<u>339,465</u>	<u>23,200</u>	<u>316,265</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(239,600)</u>	<u>(239,600)</u>	<u>63,020</u>	<u>302,620</u>
Net Changes in Fund Balances	(239,600)	(239,600)	63,020	302,620
Fund Balances - Beginning	<u>239,600</u>	<u>239,600</u>	<u>338,161</u>	<u>98,561</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 401,181</u>	<u>\$ 401,181</u>

MONTGOMERY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of budgetary schedules to the statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis

	Revenues	Expenditures	Other Financing Sources (Uses)
General Fund			
Budgetary Comparison Schedule	\$ 4,600,430	\$ 6,893,387	\$ 2,392,276
Proceeds from Sheriff for Payoff on Sheriff's Vehicle Lease	24,142	24,142	
Financing Obligation Proceeds		117,000	117,000
Kentucky Advanced Revenue Program Principal Payments		(3,063,300)	(3,063,300)
	<hr/>	<hr/>	<hr/>
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 4,624,572</u>	<u>\$ 3,971,229</u>	<u>\$ (554,024)</u>

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**MONTGOMERY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

**MONTGOMERY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

	Local Government Economic Assistance Fund	Health and Civic Center Fund	Finneran Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 59,159	\$ 269,557	\$ 81,827	\$ 410,543
TOTAL ASSETS	<u>\$ 59,159</u>	<u>\$ 269,557</u>	<u>\$ 81,827</u>	<u>\$ 410,543</u>
FUND BALANCES				
Reserved For:				
Encumbrances	\$ 0	\$ 2,590	\$ 0	\$ 2,590
Permanent Fund - Senior Care			75,000	75,000
Unreserved				
Special Revenue Funds	59,159	266,967		326,126
Permanent Fund			6,827	6,827
TOTAL FUND BALANCES	<u>\$ 59,159</u>	<u>\$ 269,557</u>	<u>\$ 81,827</u>	<u>\$ 410,543</u>

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MONTGOMERY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information - Modified Cash Basis

For the year ended June 30, 2005

MONTGOMERY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information - Modified Cash Basis

For the year ended June 30, 2005

	Local Government Economic Assistance Fund	Juvenile Justice Fund	Emergency Food and Shelter Fund	Health and Civic Center Fund
REVENUES				
Intergovernmental	\$ 84,032	\$ 0	\$ 14,341	\$ 45,735
Charges For Services				121,485
Interest				1,035
Total Revenues	<u>84,032</u>	<u></u>	<u>14,341</u>	<u>168,255</u>
EXPENDITURES				
Social Services	0	0	14,341	0
Roads	24,872			
Protection to Persons/Property		39,680		
General Health and Sanitation				85,758
Capital Projects				
Administration				14,741
Total Expenditures	<u>24,872</u>	<u>39,680</u>	<u>14,341</u>	<u>100,499</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>59,160</u>	<u>(39,680)</u>	<u></u>	<u>67,756</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>0</u>	<u>39,680</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>39,680</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balance	59,160			67,756
Fund Balance-Beginning	<u>0</u>	<u>0</u>	<u>0</u>	<u>201,802</u>
Fund Balance-Ending	<u><u>\$ 59,160</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 269,558</u></u>

MONTGOMERY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information - Modified Cash Basis
For the year ended June 30, 2005
(Continued)

Finneran Fund	Total Non-Major Governmental Funds
\$ 0	\$ 144,108
	121,485
1,910	2,945
1,910	268,538
0	14,341
	24,872
	39,680
	85,758
2,100	2,100
	14,741
2,100	181,492
(190)	87,046
0	39,680
0	39,680
(190)	126,726
82,015	283,817
\$ 81,825	\$ 410,543

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Morgan-Franklin, LLC
Certified Public Accountants

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513 Main Street
West Liberty, KY 41472

Brenda K. Morgan
Jody B. Franklin

Phone: (606) 743-1884
Fax: (606) 743-1895
www.morganfranklin.com

The Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive
Members of the Montgomery County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 5, 2005. Montgomery County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
October 5, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

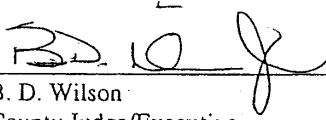
MONTGOMERY COUNTY FISCAL COURT

**For the year ended
June 30, 2005**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC PROGRAMS
MONTGOMERY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2005

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.



B. D. Wilson
County Judge/Executive



Forrest Brown
County Treasurer